



CALIFORNIA
STATE BOARD
OF EQUALIZATION

JOHANKLEHS
First District
Hayward

DEAN F. ANDAL
Second District
Stockton

CLAUDE PARRISH
Third District
Torrance

JOHN CHIANG
Fourth District
Los Angeles

KATHLEEN CONNELL
State Controller
Sacramento

E. L. SORENSEN, JR.
Executive Director
Sacramento

Tax Tips for Retail Feed and Farm Supply Stores

Sales and Use Taxes

July 1999

Publication 66 • LDA

Contents

| | | |
|---|--|----|
| 1 | Sales of Animals, Feed, and Related Supplies . . . | 1 |
| 2 | Sales of Farm and Garden Supplies . . . | 6 |
| 3 | General Application of Tax . . . | 9 |
| 4 | Taxability of Purchases . . . | 14 |
| 5 | Appendix: Sample Exemption Certificates . . . | 16 |
| 6 | For More Information . . . | 17 |
| | Reader Survey . . . | 21 |

Preface

This pamphlet is designed to help you understand California's Sales and Use Tax Law and Regulations as they apply to businesses that sell feed, farm supplies, and related items. Please note that you are *not* required to hold a seller's permit and report sales tax to the state if your sales consist *entirely* of sales of feed for food animals (see page 1), for nonfood animals that are to be sold in the owner's regular course of business, or for breeding animals whose offspring will be sold in the owner's regular course of business. If you are a grower of hay, this exemption applies only if you

- Produce the hay for sale only to beef cattle feedlots or dairies; or
- Sell the hay exclusively through a farmer-owned cooperative.

If you cannot find the information you are looking for in this booklet, please contact our Information Center. Staff will be glad to answer your questions. Telephone numbers are on page 17.

For general information about sales and use taxes, your obligations as holder of a seller's permit, and how to file tax returns, please see *Your California Seller's Permit*, another Board of Equalization publication (number 73). It includes information on obtaining a permit; using a resale certificate; collecting and reporting sales and use taxes; buying, selling, and discontinuing a business; and keeping records. Information on obtaining this and other publications begins on page 17.

Other taxes. Frequently, businesses that sell farm and related supplies are subject to fuel taxes, the tire recycling fee, the underground storage tank maintenance fee, and other California taxes and fees. For a program list and contact information, see page 20.

We welcome your suggestions for improving this or any other tax tip publication. You may use the reader survey on page 21 to comment, or write:

Audit Evaluation and Planning Section, MIC: 40
State Board of Equalization
PO Box 942879
Sacramento CA 94279-0040

Note: This pamphlet summarizes the law and applicable regulations in effect when the pamphlet was written, as noted on the cover. However, changes in the law or regulations may have occurred since that time. If there is a conflict between the text in this pamphlet and the law, the latter is controlling.

1. Sales of Animals, Feed, and Related Supplies

Although sales of animal-related products — such as tack, cages, and pet supplies — are generally taxable, some of your animal and supply sales may not be subject to tax. This chapter discusses how tax applies to sales of animals, feed, drugs, bedding and litter, and packing supplies. General information on the application of sales tax, including sales for resale, is found in Chapter 4, “General Application of Tax,” on page 9.

Animals, birds, and insects

For more information, you may wish to obtain a copy of Regulation 1587, Animal Life and Feed. See page 17 for ordering information.

◆ Food animals

Tax does not apply to your sales of food animals. Food animals are considered to be those animals, birds, or insects commonly used in producing food items that people eat, such as meat products, dairy products, eggs, and honey.

Food animals include, but are not limited to:

- Cattle
- Swine
- Game birds
- Pigeons
- Chickens
- Turkeys
- Sheep
- Rabbits
- Bees
- Ostriches and emus

◆ Nonfood animals

Sales tax generally applies to your sales of animals, birds, reptiles, and insects that do not meet the definition of food animals, whether they are used for working stock, for breeding, as pets, or for other purposes.

Nonfood animals include animals such as:

- Dogs and cats
- Horses
- Rodents: Guinea pigs, hamsters, rats, and mice
- Tropical fish
- Pet birds
- Rheas
- Snakes
- Monkeys
- Earthworms
- Beneficial insects, such as ladybugs
- Chinchillas and mink

Feed

Please note: *If your sales consist entirely of sales of feed for food animals, and/or for nonfood animals described in the two bullets at the top of the next page, you are not required to hold a seller's permit and report sales tax to the State. Special requirements apply to hay growers (see the "Preface").*

Feed for food animals

◆ Feed defined

For sales and use tax purposes, *feed* includes grain, hay, seed, kibble, and similar products. Feed also includes items with nutrient value, such as:

- Cod liver oil
- Salt
- Bone meal
- Oyster shell
- Calcium carbonate
- Double purpose limestone granulars

Feed sales may be taxable, as explained under "Sales of Feed," below.

Related items are not considered feed. Although the following non-nutrient items may be fed to animals, they are not considered feed. Generally, sales of these items are subject to tax:

- Sand
- Charcoal
- Granite grit
- Sulfur
- Medicines (see page 3)

◆ Sales of Feed

Tax does not apply to sales of feed used for food animals (defined on the previous page). You should itemize all invoices that include a nontaxable feed sale.

Exemption certificates. Some feed, like alfalfa, can be used for either food or nonfood animals. If you sell feed of this type for consumption by food animals, you must obtain a *feed exemption certificate* from the purchaser. This can be done in advance or at the time a purchase is made. A sample certificate is found on page 16 of this pamphlet.

Exceptions. You are not required to obtain exemption certificates for the nontaxable sale of

- Feed ordinarily used only in the production of meat, dairy, or poultry products for human consumption
- Two or fewer standard sacks of grain, and/or four or fewer bales of hay (for use as feed)
- Feed bearing a manufacturer's label indicating that it is intended for food animals.

Exemption certificate alternatives. Instead of keeping separate exemption certificates on file, you may wish to incorporate a facsimile into your actual invoices. You can preprint the facsimile directly on the invoice, or use a rubber stamp to add it to your invoices as needed. In either case, the purchaser would complete the required information at the time of the sale, rather than filing a separate form with you.

If you use separate certificates, your invoices should include the name and address of the buyer as listed on the exemption certificate on file.

Feed for nonfood animals

*Please see the margin
note on the previous
page, and the "Preface,"
for exemptions applicable
to certain feed sellers.*

Sales of feed for nonfood animals are generally subject to sales tax, unless the feed is sold

- For animals that will be sold in the purchaser's regular course of business; or
- For breeding animals whose offspring will be sold in the purchaser's regular course of business.

Examples include kibble sales to pet stores who feed puppies they will sell, and bone meal sales to bird breeders who will sell their birds' chicks.

As with sales of feed for food animals, you must obtain a feed exemption certificate from the purchaser for such nontaxable feed sales (see page 2). Otherwise, you are required to report tax on the sale.

Please note: You should not accept an exemption certificate for feed purchases made for breeding stock if you are aware that the animals' offspring will not be sold in the regular course of business. For example, if you know your customers plan to keep the foal from a pregnant mare rather than sell the foal as part of their ranch operation, you should not accept an exemption certificate for purchases of feed for the mare.

For information on feed sales to boarding and training facilities, see page 5.

Drugs and medicines

*If you are unsure
whether a product you
sell is considered a
drug or medicine as
defined for sales and
use tax purposes,
please contact the
Board (see page 17).*

◆ Drugs and medicines, defined

"Drugs and medicines" are products intended to prevent or control disease in animals. This includes all livestock drugs approved by the U.S. Food and Drug Administration that are defined and registered in compliance with sections 14292, 14206, and 14281 of the California Food and Agricultural Code. Drugs and medicines include, but are not limited to:

- Legend drugs
- Pills and capsules
- Liquid medications
- Injected drugs, including vaccines
- Ointments
- Intravenous fluids
- Medicated soaps

In addition, vitamins and insecticides *labeled for use in livestock*, including poultry, are considered drugs and medicines when administered directly to the animals or in their feed or water (see table next page).

◆ Certain sales of drugs and medicines may not be taxable

Under certain circumstances, your sale, use, or purchase of drugs or medicines that will be administered to animals is not taxable. The product

must be intended for the prevention or control of disease in

- Food animals, as defined on page 1;
- Animals to be sold by their owner in the regular course of business (see *Please note*, below); or
- Breeding animals whose offspring will be sold in the regular course of the owner's business (see *Please note*, below).

Please note: For nonfood animals, the drug or medicine must be intended for administration as an additive to the animals' food or water. The table below summarizes how tax applies to transactions involving drugs and medicines.

Applying tax to transactions involving animal drugs and medicines

| Type of Animal | Drug or Medicine Administered | |
|---|-------------------------------|-----------------------|
| | in Feed or Water | Directly ¹ |
| Food animal | Nontaxable | Nontaxable |
| Nonfood animal, if it or its offspring will be sold in the regular course of business | Nontaxable | Taxable |
| Other nonfood animal | Taxable | Taxable |

¹ Oral, hypodermic, external, or topical application, including injections, implants, drenches, repellents, and pour-ons.

Supporting documentation

When you make a nontaxable sale of a drug or medicine, your sale must be supported by a *drug exemption certificate* completed by the purchaser (see sample page 16). As with feed certificates, you may wish to incorporate a facsimile of such a certificate into your invoices rather than keeping separate certificates on file for each purchaser. You can preprint the facsimile directly on the invoice, or use a rubber stamp to add it to your invoices as needed. In either case, the purchaser in a nontaxable drug or medicine sale would complete the required information at the time of sale rather than filing a separate form with you.

Sales to veterinarians

Veterinarians are considered retailers of products in some instances and end users ("consumers") in others. Veterinarians may give you a resale certificate for products they will sell at retail. When veterinarians purchase items they will consume in their practice, tax applies to the transaction in the same manner as any other retail sale. Veterinarians may also provide a drug or feed exemption certificate for purchases of feed or drugs that will be used in a nontaxable manner, as previously described. For more information, see publication 36, *Tax Tips for Veterinarians*.

Bedding and litter

Tax applies to sales of most animal bedding and litter. However, the sale, use, or storage of wood shavings, sawdust, rice hulls, or other products used as litter for poultry or egg production and ultimately resold or incorporated into fertilizer products, is exempt from tax.

Note: For information on sales of fertilizer, including animal bedding mixed with manure, see chapter 2, “Sales of Farm and Garden Supplies.”

Sales of feed and other items to boarding and training facilities

◆ Facilities charging a flat fee

Sales of feed, grains, hay, or other merchandise to a training or boarding facility that charges customers a *flat fee* are generally taxable. The facility is considered to be the end user of the feed and other taxable items included in its periodic charge. Consequently, the facility cannot use a resale certificate to purchase those items from your business.

Example: An equestrian center charges customers a flat fee of \$500 a month for boarding a horse, which includes a stall, pasture access, feed, stall cleaning, and access to the center’s facilities. The center is considered to be the end user of feed and stall bedding it purchases because it does not invoice customers separately for those items. You must report tax on sales of feed and bedding to the equestrian center.

Exception: If the facility boards food animals, animals that will be sold in the owner’s regular course of business, or breeding animals whose offspring will be sold in the breeder’s regular course of business, the facility’s purchase of feed *for those animals* would not be subject to tax.

◆ Facilities itemizing charges for taxable sales of merchandise

If the boarding facility lists charges for feed or other taxable merchandise separately on its customer invoices, it is considered to be the retailer of those products. As a retailer, it may use a resale certificate when making purchases from your business.

Example: A horse training ranch charges its customers \$300 a month for facility use and training services. In addition, it charges each customer an itemized amount each month for feed. The ranch is considered the retailer of feed sold in this manner. You are not required to report tax on feed sales to the ranch, provided you obtain a properly executed resale certificate (see “Sales for resale” on page 9).

Wrapping and packaging supplies

You are not required to make a separate charge and report tax on the sale of packaging — paper bags, twine, and similar items — when it is used to wrap merchandise you have sold. If you list a separate charge for nonreturnable containers, wrapping, or packaging materials, the charge is generally subject to tax. Deposit charges for returnable containers are not taxable.

2. Sales of Farm and Garden Supplies

Although sales of many items used for farming and gardening — tools, equipment, and so forth — are generally taxable, some sales of farm and garden supplies are not subject to tax. This chapter describes the taxability of certain items commonly sold for growing crops and for ornamental horticulture. For more information, you may wish to obtain a copy of Regulation 1588, Seeds, Plants, and Fertilizer (see ordering information on page 17). General information on the application of tax, including sales for resale, is found in chapter 4, “General Application of Tax,” beginning on page 9.

Seed

Your seed sales are *not* subject to tax if

- The seeds, or the products grown from them, are used as food for people or food animals (see page 1). Examples include vegetable seeds and seeds used to produce grain or pasture grasses.
- The seeds, or the products grown from them, will be resold by the purchaser.

Other seed sales are taxable.

Plants

Your sales of plants are not taxable if the plants produce

- Food items that people eat, such as vegetables, fruit, grains, edible seeds or berries, olives, or nuts; or
- Products the purchaser will resell, such as flowers.

If your customer is purchasing a non-food plant and intends to resell the plant or its products, the customer should give you a resale certificate for the plant (example: a florist purchasing gladiolus). See page 9 for more information on resale certificates.

Please note: Sales tax law regarding the sale of plants changed beginning January 1, 1999. Prior to that date, your sales of non-annual food plants were generally taxable. Now you no longer need to distinguish between annual and non-annual plants when determining how tax applies to your plant sales.

Fertilizer

If you are not certain whether the sale of a farm or garden material is subject to tax, please contact the Information Center for assistance (see page 17).

◆ Fertilizer defined

The term *fertilizer*, for sales and use tax purposes, includes:

- Commercial fertilizers (as defined in section 14522 of the Food and Agricultural Code);
- Agricultural minerals (as defined in section 14512 of the Food and Agricultural Code);
- Cover crops that will be plowed under to fertilize land; and
- Manure. *Manure* is considered to be: (1) waste from any domestic animal or fowl; (2) domestic animal or fowl waste mixed only with materials used for sanitary purposes, or with materials used for bedding or feeding purposes for the animal or fowl; and (3) manure mixed with preservative materials.

◆ Fertilizer sales

Tax does not apply to the sale of fertilizer to be applied to land, including foliar application to plants, if the land is used to produce

- Food items that people eat;
- Feed for food animals, including pasture grasses; or
- Products to be sold by the purchaser.

You must report tax on fertilizer sold for other purposes.

Note: If you sell a combination insecticide/fertilizer, the portion of the total sales price representing the price of the fertilizer is not subject to tax if the fertilizer is used as described above.

Documenting nontaxable fertilizer sales. If your customer is purchasing fertilizer for a nontaxable use, you must obtain a written statement from the purchaser describing that use. The statement does not have to be in any particular form, but must include:

- Date
- Signature of buyer or agent
- Name and address of the purchaser
- Purchaser's seller's permit number, or a notation that a permit is not required
- Description of fertilizer purchased. (For example: 1 ton soft rock phosphate.)
- Statement describing how the fertilizer will be used that clearly indicates why its purchase should not be taxable. (For example: Phosphate will be applied to land used for growing tomatoes.)

Invoices you write for nontaxable fertilizer sales should specify the name of the purchaser as shown on the statement.

Soil amendments and other materials applied to soil

The sale of the following materials added to soil are taxable:

- *Soil amendments*, as defined in section 14522 of the Food and Agricultural Code; and
- *Auxiliary soil and plant substances*, as defined in section 14513 of the Food and Agricultural Code.

Note: Although “manures sold without guarantees for plant nutrients,” are considered soil amendments in the code section noted above, they qualify as fertilizers under the Sales and Use Tax Law (see previous page).

Pesticides and insecticides

Your sales of insecticides and pesticides are subject to tax. When such materials are mixed with fertilizer, the portion of the sales price representing the price of the fertilizer is not taxable if the fertilizer is used in a tax-exempt manner (see “Fertilizer sales” on previous page).

Earthworms and beneficial insects

Sales of earthworms and beneficial insects, such as parasitic wasps and ladybugs, are taxable. Tax does not apply to your sales of feed to persons who raise and sell these and similar biological products, provided the customer provides you with a feed exemption certificate.

3. General Application of Tax

This chapter describes the general application of tax to your sales. For more information, you may wish to obtain a copy of publication 73, Your California Seller's Permit. See page 17 for ordering information.

Reporting sales tax

You must report all of your sales on your sales and use tax returns. While retail sales of merchandise are generally subject to sales tax, sales made for resale and certain other sales are not taxable. The tax due with each return is based on your total gross sales for the period covered by the return, less allowable nontaxable sales and credits.

Collecting an amount for tax from your customer

The law allows you to collect from your customers an amount equal to the sales tax you will owe on each sale. You may add the amount of tax due to the price of the products you sell, being sure to itemize it on your invoice or receipts. Or, you may include it in the total price charged. If you choose the latter method, you must post a visible sign stating, "All prices of taxable items include sales tax reimbursement calculated to the nearest mill," or include a similar statement on your sales receipts.

Sales for resale and other nontaxable sales

As mentioned above, tax does not apply to sales made for resale or to sales that are subject to exemptions and exclusions in the law (see examples in earlier chapters).

It is important that you maintain proper documentation of sales for resale and other sales that are not subject to tax. You should maintain resale and exemption certificates in your records, and indicate purchasers' names on corresponding sales invoices.

For more information on accepting or using resale certificates, see publication 73, *Your California Seller's Permit*, Regulation 1668, *Resale Certificates*, and publication 103, *Sales for Resale* (see page 17 for ordering information).

Reporting credit sales

You must report tax for an item sold on credit on the tax return for the reporting period in which you make the sale, even though you may not receive full payment until a later date. Tax is due on the full selling price.

Note: If your customer does not pay you for a sale, you may be eligible for a bad debt deduction. See next page.

Example: You may sell a saddle for \$800 in June and allow the customer to take it home immediately, even though the customer makes a \$200 partial payment rather than payment in full. Regardless of when you receive the balance due, you must report the full \$800 price on your sales and use tax return for the period that includes the month of June.

You may exclude amounts for insurance, interest, finance, and carrying charges from the taxable selling price, provided you keep adequate and complete records itemizing those charges.

Discounts on taxable sales

◆ Cash

A cash discount is not subject to sales tax. For example, if you sell a dog house for \$60 less a 10 percent discount (\$6), tax would be due on \$54 (\$60 price – \$6 discount = \$54). Your invoice or receipt should clearly list the original price, amount of discount, amount subject to tax, and amount of applicable tax.

◆ Coupons you issue

If you publish or distribute coupons that are redeemable for taxable merchandise purchased at your store, and you are not reimbursed in any way by the product's manufacturer, the face value of the redeemed coupon is considered a cash discount. As noted above, the amount of a cash discount is not included in an item's taxable selling price.

However, if the manufacturer reimburses you for coupons you issue that are redeemed by your customers, the face value of the coupon must be included in the taxable price of the product.

◆ Manufacturers' coupons

When manufacturers

- Distribute coupons that reduce the selling price of their taxable products by a specific amount, *and*
- Reimburse you for redeemed coupons,

the amount you will be reimbursed — not including any handling allowance — must be included in the taxable selling price of the product.

Example: A dog food manufacturer sends out coupons that customers can use to obtain a \$1 discount on their next kibble purchase. The manufacturer reimburses you \$1.05 for each coupon redeemed — the value of the coupon plus a 5 cent handling allowance. The face value of the coupon — \$1.00 — must be included in the taxable selling price of the dog food, regardless of the resulting discount to the customer. If the coupon reduces the cost to the customer from \$18.50 to \$17.50, tax is due on the full \$18.50 you will be paid for the kibble (\$17.50 from customer + \$1.00 manufacturer's coupon reimbursement). The 5 cent handling allowance you receive is not subject to sales tax.

Bad debt deductions

If a check you accepted for a taxable sale is returned unpaid by the bank, and you find it to be uncollectible and write it off for income tax purposes, you may claim a bad debt deduction for the amount of the taxable sale. You must claim the deduction on the sales and use tax return for the reporting period in which you found the check worthless and wrote it off, under "Bad Debt Losses on Taxable Sales." You can take the deduction only if you previously reported tax on the sale on a previous return.

Similarly, uncollectible amounts due on taxable credit sales can be deducted on your return, subject to certain adjustments. For more information on bad debt deductions, please call the Board's Information Center or ask for a copy of Regulation 1642, *Bad Debts* (see page 17).

Please note: If the tax rate has changed since you made the sale, you must adjust the amount of the bad debt deduction to conform to the tax rate in effect at the time of the sale. Please call the Information Center for assistance.

If you later collect the money due for a bad debt (including worthless checks), any amount you previously claimed as a deduction must be reported as a taxable sale. You cannot deduct amounts you paid to collect the funds due.

Robbery, theft, and shoplifting

You are required to pay tax on all of your taxable sales despite any loss of proceeds from them. As a result, you may not take a deduction for a loss due to robbery, theft, or shoplifting.

Although you cannot deduct such losses, you must document them in your records. Acceptable forms of documentation include police reports, insurance claims, reports from private investigating agencies, and so forth. It is important that you be able to account for all of your inventory and income if your business is audited.

Delivery charges

For more information, you may wish to obtain a copy of Regulation 1628,

Transportation Charges, or publication 100, Shipping and Delivery Charges.

Please note: This example shows tax calculated at the rate of 7.25 percent. Please be sure to report the correct tax rate applicable to your sale (see next page).

◆ Nontaxable delivery charges

Delivery charges for nontaxable transactions are also nontaxable.

Delivery charges for shipment of taxable merchandise are generally not taxable if they are *clearly stated as separate charges* on your invoice, and they meet both of the following conditions:

- You ship the merchandise directly to the purchaser using the U.S. Mail, an independent contract carrier, or a common carrier, rather than your own vehicles; *and*
- You do not charge your customer more than your actual cost for the delivery. (If you charge more than your cost, tax applies to the additional amount).

Example: You sell 100 bales of alfalfa for a price of \$9 per bale to a horse owner who requests delivery. Since your truck is in the shop, you hire a local trucking company that charges you \$75 to make the delivery. The delivery charges are not subject to tax provided you invoice your customer as follows:

| | |
|-------------------------------------|--------------|
| 100 bales of alfalfa @ \$9 per bale | \$ 900.00 |
| Sales tax (\$900 x 7.25%) | 65.25 |
| Delivery | <u>75.00</u> |
| Total | \$1040.25 |

◆ Taxable delivery and delivery-related charges

Tax generally applies to the following charges:

- Delivery charges included in the unit price or delivered price of an item (please see example below)
- “Handling charges”
- Freight charges representing your cost for shipping the item to your place of business (“freight-in”)
- Deliveries made with your business’s vehicles

Example: You may sell alfalfa to a horse owner for \$9.75 a bale, including delivery. If your invoice clearly indicates that the cost of delivery is included in the unit (per bale) price, the total price for the alfalfa, including delivery charges, is subject to tax.

Combined charges. If your invoice lists a single charge combining a nontaxable delivery charge (see previous page) with another charge—for example, “shipping and handling – \$7.50” — the portion of the charge representing your actual delivery cost is not subject to tax.

◆ Tax rates for delivered sales

Deliveries within a special tax district

If your business is located in a special tax district, the full tax rate, including the special district tax, generally applies to sales delivered within that district.

Deliveries into a special tax district

Deliveries with own vehicle. If you deliver into a special tax district using your *own vehicle*, the tax rate in effect for the district applies to your sale.

Tax rates for cities and counties in the state are listed in pamphlet 71, California City and County Sales and Use Tax Rates.

Example: Your feed store in Mono County (which has no special tax district) makes a taxable sale to a customer from Inyo County (which has one special tax district). You deliver the merchandise to the customer’s home in your own truck. Tax would apply at the rate of 7.75 percent (7.25% statewide rate + 0.50% Inyo special district tax).

Deliveries by common carrier. If you deliver into a special tax district by *common carrier*, and you do not have (1) a business location in that district, or (2) any kind of representative there who makes sales, takes orders, or makes deliveries for you, you are only *required* to apply the standard statewide tax rate (currently 7.25 percent) to the sale. However, your customer is required to report any additional district tax due. As a courtesy to your customer, you may choose to collect and report the additional district tax on the transaction.

***Deliveries to a
location outside
special tax districts***

If you make a delivery to a customer located outside all special tax districts, the standard statewide sales tax rate, currently 7.25 percent, applies to the sale. This holds true whether the delivery is made using your own vehicles or in some other manner.

Example: Your farm supply store is located in San Joaquin County, where the total sales tax rate (including a special district tax) is 7.75 percent. You sell and deliver 200 pounds of sulfur to a grape grower located in Amador County, which has no special tax district. Tax on the sale is due at the standard statewide rate, currently 7.25 percent.

4. Taxability of Purchases

Under certain circumstances, you are required to pay tax to the Board on your purchases. This chapter describes typical situations in which tax may apply to purchases made by your business.

Use tax

If you purchase items with a resale certificate and use the property for another purpose, you must generally report *use tax* on the purchase price. The rate for use tax is the same as the sales tax rate effective for your location.

The sections below describe typical situations in which use tax applies to purchases made by retailers.

◆ Merchandise purchased for resale

You may use a resale certificate to purchase items you intend to resell. Sales tax applies to your subsequent retail sale of the merchandise.

However, if you purchase taxable merchandise for resale but use it for other business or personal purposes, you must report use tax to the Board. Taxable uses include:

- Donations (Donations to certain charitable organizations may be tax-exempt. Please call our Information Center for further information.)
- Gifts to friends, employees, and others
- Personal use

Note: If you know at the time of purchase that you will not resell merchandise, you should not use a resale certificate for that purchase.

If you purchase items tax-paid but resell those items before using them, you can take a deduction on your tax return when you report the sale. You may deduct the amount you paid before sales or use tax was added, under “Cost of Tax-Paid Purchases Resold Prior to Use” on your return.

◆ Items used for demonstration and display

Merchandise you use exclusively for demonstration and display while you hold it for sale is not subject to use tax. Sales tax applies when the item is sold.

If you use a demonstration or display item for any additional purpose, including personal use, you must report the purchase price under “Purchases Subject to Use Tax” on your return. Again, sales tax applies to the subsequent retail sale of the merchandise. For more information, see Regulation 1669, *Demonstration, Display, and Use of Property Held for Resale — General*, available from the Board’s Information Center (see page 17).

◆ Purchases from out-of state retailers

In general, if you purchase taxable merchandise from an out-of-state retailer (without paying California tax) and use the merchandise for a purpose other than for resale, the purchase is subject to use tax and must be reported on your return.

Credit for payment of another state's tax. If you were required to pay and did pay another state's sales tax on the purchase, you may receive credit for that payment by

- Reporting the amount of the purchase under "Purchases Subject to Use Tax," and
- Deducting the amount of tax paid under "Taxes Imposed by Other States" on your return. You can claim a credit up to the amount of California tax due.

Some out-of-state retailers are authorized to collect and pay California use tax. If your sales receipt indicates that the correct amount of California use tax has been collected on your purchase, you do not need to report the purchase on your return.

Business supplies and equipment

Purchases of items used in your business — display fixtures, equipment, advertising, bookkeeping, maintenance materials, and so forth — are subject to sales or use tax. If bought from an out-of-state seller who does not charge California use tax, the purchase must be reported on your return, under "Purchases Subject to Use Tax." If you later sell any of these items, you must report tax on the sale.

Wrapping and packaging supplies

You may use a resale certificate to purchase supplies, such as paper bags or twine, that you will use to package merchandise you sell, provided

- You supply these items with your sales; and
- You do not require your customers to return them to you.

You are not required to charge separately for these items or report tax to the Board on their sale.

However, if you charge your customers a deposit on feed sacks or similar items, or otherwise require their return, they are considered returnable containers rather than items purchased for resale. You are considered the end user of such items. You should not use a resale certificate to purchase returnable containers from your supplier.

For more information you may wish to obtain a copy of Regulation 1589, *Containers and Labels*.

5. Appendix: Sample Exemption Certificates

Feed Exemption Certificate

Please note: *These certificates are shown as examples only. The Board does not furnish exemption certificates for your use.*

For information on feed exemption certificates, see pages 2 and 3.

FEED EXEMPTION CERTIFICATE

"I hereby certify that all of the feed which I shall purchase from

_____ will be purchased for use as feed for food animals or for nonfood animals which are being sold in the regular course of business. This certificate shall be considered a part of each order which I give unless such order shall otherwise specify. This certificate shall be good until revoked in writing."

Signature _____ Date _____

Name _____

Address _____

Occupation _____

Seller's Permit Number (if any) _____

Drug Exemption Certificate

For information on drug exemption certificates, see page 4.

DRUG EXEMPTION CERTIFICATE

"I hereby certify that the drugs or medicines which I shall purchase from

_____ will be purchased

[] as an additive to feed or drinking water for food animals or for nonfood animals being held for sale in the regular course of business, or

[] for administration directly to a food animal.

This certificate shall be considered a part of each order which I shall give unless such order shall otherwise specify. This certificate shall be good until revoked in writing."

Signature _____ Date _____

Name _____

Address _____

Occupation _____

Seller's Permit Number (if any) _____

6. For More Information

Information Center 800-400-7115

TDD Assistance

from TDD phones

800-735-2929

from voice phones

800-735-2929

To verify a seller's permit number — *resale certificates*

Questions regarding your account

Fax-back service

Publications and regulations

*A list of available
Board publications
is found in publica-
tion 51, Guide to
Board of Equaliza-
tion Services.*

If you have a general tax question, please call our toll-free number and talk to a customer service representative. Representatives are available to help you from 8:00 A.M. to 5:00 P.M. (Pacific time), Monday-Friday, excluding State holidays.

You can use the Information Center's automated services to order forms and publications (see below). You can also listen to recorded messages about sales and use tax rates and recent rate changes and to a recording of the sales and use tax return instructions (*BOE-401* series), or information on obtaining a seller's permit.

Please note: We can provide assistance in languages other than English.

If you wish to verify the seller's permit number for a business that gives you a resale certificate for a purchase, you may call 888-225-5263 (toll-free), seven days a week, or use the interactive verification service on our Internet site (www.boe.ca.gov). Please have on hand the seller's permit number you wish to verify, the business name, business address, and business owner's name.

Please call the office that maintains your records. Its name and telephone number are printed on your tax returns. Field office numbers are listed on page 19.

Our fax-back service, available 24 hours a day, allows you to order selected forms and regulations. Call the Information Center and choose the fax option. Your selections will be faxed to you within 24 hours.

To obtain copies of publications and regulations, you may:

Call our Information Center. A customer service representative will help you during working hours. If you know the name of the publication, form, or regulation you need, you can call outside working hours and leave a recorded message. Certain documents are also available on our fax-back service, described above.

Use the Internet. Certain regulations and publications are available on our Internet home page. See next page for more information.

Regulations. The following regulations may be of interest to you:

- 1587 *Animal Life and Feed*
- 1588 *Seeds, Plants, and Fertilizer*
- 1589 *Containers and Labels*
- 1628 *Transportation Charges*
- 1641 *Credit Sales and Repossessions*

***Publications and
Regulations
(continued)***

- 1642** *Bad Debts*
- 1654** *Barter, Exchange, "Trade-ins" and Foreign Currency Transactions*
- 1655** *Returns, Defects and Replacements*
- 1667** *Exemption Certificates*
- 1668** *Resale Certificates*
- 1698** *Records*
- 1700** *Reimbursement for Sales Tax*
- 1821** *Forward — District Taxes*

A complete list of sales and use tax regulations is in Board publication 73, *Your California Seller's Permit*

Publications. You may find the following publications to be helpful. The letters V, K, C, or S following a publication indicate the pamphlet is available in Vietnamese, Korean, Chinese, or Spanish:

- 17** *Appeals Procedures: Sales and Use Taxes and Special Taxes*
- 36** *Tax Tips for Veterinarians*
- 44** *District Taxes*
- 51** *Guide to Board of Equalization Services (V,K,C,S)*
- 58A** *How to Inspect and Correct Your Records*
- 61** *Sales and Use Taxes: Exemption and Exclusions*
- 70** *The California Taxpayer's Bill of Rights (V,K,C,S)*
- 73** *Your California Seller's Permit (V,K,C,S)*
- 74** *Closing Out Your Seller's Permit (V,K,C,S)*
- 75** *Interest and Penalty Payments*
- 76** *Audits and Appeals (K,C,S)*
- 100** *Shipping and Delivery Charges*
- 101** *Sales Delivered Outside California*
- 102** *Sales to the U.S. Government*
- 103** *Sales for Resale*

***Tax Information
Bulletin***

As a registered seller, you receive the quarterly *Tax Information Bulletin* with your sales and use tax return. If you file only once a year and would like to receive all four bulletins, please write to the following address and ask to be added to Mailing List #15: Mail Services Unit, MIC:12; Attn: Addressing Systems; State Board of Equalization; P.O. Box 942879; Sacramento, CA 94279-0012.

***Computer access
— Internet
www.boe.ca.gov***

We maintain the following information on our Internet site: seller's permit verification, sales and use tax rates by county, frequently asked questions, Board field office information, Taxpayers' Bill of Rights Hearings, publication order forms, an agency profile, and Board Member biographies. You can also download copies of selected publications.

Written tax advice

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, and interest charges that are due on a transaction

if the Board determines that you reasonably relied upon its erroneous written advice regarding the transaction. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction. Please send your request to the Board office that handles your account.

Classes

Some local Board offices offer basic sales and use tax classes to help you apply the Sales and Use Tax Law in your business. For information, please call the office that handles your account.

Tax Evasion Hotline

Tax evasion hurts businesses that are paying their fair share. If you wish to report a case of suspected tax evasion, call our toll-free hotline at 888-334-3300, during working hours (see previous page).

Taxpayers' Rights Advocate

We want to make dealing with us as easy as possible. Consequently, we have appointed a Taxpayers' Rights Advocate to help you with problems you cannot resolve at other levels. You can contact the Advocate's office at

Taxpayers' Rights Advocate, MIC: 70

State Board of Equalization

P.O. Box 942879

Sacramento CA 94279-0070

Phone: 916-324-2798 or 888-324-2798 (toll-free)

Fax: 916-323-3319

Field Offices

| City | Area Code | Number | City | Area Code | Number |
|------------------|-----------|----------|-------------|-----------|----------|
| Bakersfield | 661 | 395-2880 | San Jose | 408 | 277-1231 |
| City of Industry | 562 | 908-5280 | San Marcos | 760 | 744-1330 |
| Culver City | 310 | 342-1000 | Santa Ana | 714 | 558-4059 |
| El Centro | 760 | 352-3431 | Santa Rosa | 707 | 576-2100 |
| Eureka | 707 | 445-6500 | Stockton | 209 | 948-7720 |
| Fresno | 559 | 248-4219 | Suisun City | 707 | 428-2041 |
| Laguna Hills | 949 | 461-5711 | Torrance | 310 | 516-4300 |
| Norwalk | 562 | 466-1694 | Van Nuys | 818 | 904-2300 |
| Oakland | 510 | 622-4100 | Ventura | 805 | 677-2700 |
| Rancho Mirage | 760 | 346-8096 | | | |
| Redding | 530 | 224-4729 | | | |
| Riverside | 909 | 680-6400 | | | |
| Sacramento | 916 | 227-6700 | | | |
| Salinas | 831 | 443-3003 | | | |
| San Diego | 619 | 525-4526 | | | |
| San Francisco | 415 | 703-5400 | | | |

For Out-of-State Accounts

| | | |
|----------------|-----|----------|
| Chicago, IL | 312 | 201-5300 |
| Houston, TX | 281 | 531-3450 |
| New York, NY | 212 | 697-4680 |
| Sacramento, CA | 916 | 227-6600 |

Information — Other Taxes and Fees

As noted in the “Preface,” you may be required to report taxes and fees other than sales and use taxes to the Board of Equalization or other State agencies. For information, call the numbers listed below.

| <i>Program</i> | <i>For more information, call</i> |
|--|-----------------------------------|
| Use Fuel Tax | 916-322-9669 |
| Motor Vehicle Fuel License Tax | 916-322-9669 |
| Diesel Fuel Tax | 916-322-9669 |
| Underground Storage Tank Maintenance Fee | 916-322-9669 |
| Oil Recycling Fee (California Integrated Waste Management Board) | 916-255-2291 |
| Tire Recycling Fee | 800-400-7115 |
| Hazardous Substances Tax (includes generator and disposal fees) | 800-400-7115 |

What do you think of this pamphlet?

We hope that this newly revised tax tip pamphlet will help you to better understand the Sales and Use Tax Law as it applies to your business.

We would appreciate it if you could take a few minutes to give us your comments and suggestions for this pamphlet, so that we can improve future revisions. We'd also like to have some information that will help us make our publications program more useful to you. Please answer the questions below and on the reverse, remove the page, and return it to us. It is designed as a postage-paid self-mailer: you may fold the page as indicated and seal it with two pieces of tape.

Thank you for taking the time to respond to this survey.

\\ Pamphlet Comments and Suggestions

1. Does this pamphlet help you apply the sales and use tax in your business operations?
2. Are there any sections of the pamphlet that you find particularly helpful? (please note)
3. Are there any sections of the pamphlet that you find confusing? (please explain, if possible)
4. Are there any topics not addressed in this pamphlet that you would like us to include?
5. Are there any sections of the pamphlet that you feel are incomplete? What would you add to them?
6. Do you have any other comments or suggestions for improving this pamphlet?

Please answer questions on reverse

date _____

tape



State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0058



tape

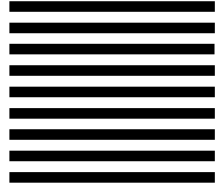
NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL

FIRST-CLASS MAIL PERMIT NO. 199 SACRAMENTO, CA

POSTAGE WILL BE PAID BY ADDRESSEE

**PUBLICATIONS UNIT MIC 58
STATE BOARD OF EQUALIZATION
PO BOX 942879
SACRAMENTO CA 94299-9879**



fold here

remove page at perforation

tape

fold here and seal with tape or tabs where indicated

tape

Reader Survey Information (please check all boxes that apply)

What is the nature of your business?

How long have you been in business?

- ☐ less than one year ☐ 1-5 years
☐ 6-10 years ☐ more than 10 years

Did you receive a copy of this pamphlet
(or an earlier version) when you applied for
or received your seller's permit?

- ☐ yes ☐ no ☐ not sure

How did you find out about this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Tax Information Bulletin
☐ Publications listing in a Board pamphlet
☐ Other (please list) _____

Where did you obtain this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Board 800 Number Information Center
☐ Other (please list) _____

Do you use any other Board publications to help you
apply or understand the California Sales and Use Tax
Law? (please list) _____

California State Board of Equalization
450 N Street • Sacramento, California
(Mailing Address: P.O. Box 942879 • Sacramento, CA 94279-0001)